

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
September 8, 2021
9:04 a.m.

[9:04:02 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski (via teleconference)
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

CSHB 3003(FIN)am(brf sup maj fld)
 APPROP: OPERATING; PERM FUND; EDUCATION

CSHB 3003(FIN)am(brf sup maj fld) was HEARD and
HELD in committee for further consideration.

#hb3003

CS FOR HOUSE BILL NO. 3003(FIN) am(brf sup maj fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; making capital appropriations and supplemental appropriations; and providing for an effective date."

[9:05:46 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that the original version of the bill submitted by the governor had only three items including a series of fund source changes from the Higher Education Investment Fund to Unrestricted General Funds (UGF) for scholarship programs and the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Program. Additionally, the original bill version had \$1.5 billion in appropriations from the Earnings Reserve Account (ERA) to the Dividend Fund, and an additional \$1.5 billion from the ERA to the Constitutional Budget Reserve (CBR). The other body made a number of changes to the bill on the floor and in committee, many of which incorporated amendments submitted by the governor. The Senate Finance Committee had heard the changes the previous week. He stated he would review the changes to the bill and how the governor's amendments were incorporated.

Mr. Painter discussed the document titled, "Multi-year Agency Summary - FY 2022 Conf Committee Structure" (copy on file). The document showed the totals represented in the bill, with columns showing different types of funding. He reviewed the column titles. The bill in total had \$877.8 million of all funds, \$792.6 million of which was UGF. The vast majority of the amount was an appropriation to the Dividend Fund. The other items, excluding the dividend, totaled \$147.3 million of all funds.

[9:08:15 AM](#)

Mr. Painter highlighted the document titled, "HB 3003/SB 3001 Operating and Capital Amendments" (copy on file). He referenced a spreadsheet of amendments presented by the Office of Management and Budget (OMB) the previous week and noted that the other body had incorporated all but one of the amendments. The amendment not adopted was Amendment 13 (shown on page 2), which signified an appropriation of \$50.4 million to the Unemployment Insurance Trust Fund. The fund source was Coronavirus State and Local Fiscal Recovery Funds (CSLFRF). The appropriation as proposed was designed to try to avoid a tax increase on employers to refill the fund. The other body incorporated the other 33 amendments in the packet.

Co-Chair Stedman remarked that the operating budget was completed a few months ago. He queried the logistics of why the committee had not seen the information earlier in order

to incorporate the proposed funds into the operating budget.

Mr. Painter replied that he was aware that there was a possible shortfall in the Unemployment Insurance Trust Fund that could potentially cause a tax increase on employers, which was the normal statutory mechanism to refill the fund. The administration had used Coronavirus Aid, Relief, and Economic Security (CARES) Act funds that would have otherwise lapsed and deposited them into the trust fund. The amount had not yet been finalized but he had heard it was in excess of \$24 million. The deposit would partially offset the shortfall. He thought the proposal was to make up the shortfall, but there had not been a proposal during session to address the potential issue other than using the CARES Act funding.

Co-Chair Stedman asked if the \$50 million in funds would be deducted from the funds the state would receive from the American Recovery Act the following year.

Mr. Painter replied in the affirmative and stated that that the legislature had spent half the CSLFRF funds, and would receive the other half from the federal government in May. The \$50 million would come out of the following year's allocation.

Co-Chair Stedman noted that there was a normal budget cycle being completed before the funds arrived in May. He wondered why the item was so time sensitive to be on the agenda for the current meeting and bill rather the fast-track supplemental or normal operating budget that the legislature would complete in April.

Mr. Painter understood that the timing of the item was related to the rates being tied to the calendar year for employers, so having the deposit during the 2021 calendar year would affect the 2022 calendar year. If the legislature waited until January, any deposit would be too late to affect the 2022 calendar year employer contributions.

Senator Wilson wondered about the percentage that employers might have to increase in tax.

Mr. Painter stated that he had not received the information from the administration.

Co-Chair Stedman asked for Mr. Painter to repeat the question.

Mr. Painter stated the question was what the tax increase percentage would be on employers if the funding were not approved. He had asked the administration and had not yet received a response.

Senator Hoffman asked if the fund faced insolvency if the item was not funded.

Mr. Painter stated that without funding, the state would face a "danger zone" for the fund balance, which would trigger a statutory additional tax on employers to make up the potential insolvency.

[9:13:28 AM](#)

Co-Chair Bishop thought the committee might entertain the idea of having the department come and address the issue in committee. He pointed out that different employers would be affected differently by the potential increase in tax.

Co-Chair Stedman asked if there was any relief or waivers that could be used to avoid the impacts of a rate change.

Mr. Painter agreed to reach out to the department for the information.

Co-Chair Stedman asked for Mr. Painter to get back to the committee with the information. He commented that Co-Chair Bishop had knowledge on the subject.

Mr. Painter continued to address the operating and capital amendments. He stated that the other body made changes to a number of the items, which he would review. He commented that Item 11 pertained to the Department of Health and Social Services (DHSS) Emergency Programs. As submitted, the item was \$50.2 million in federal receipts that was open ended for any receipts received for the purpose of Coronavirus Relief by DHSS. The other body had changed to item to "not to exceed" \$50.2 million, rather than leaving it open ended. He continued that the administration could seek a Revised Program Legislative (RPL) for the item if it received additional funds. The \$50.2 million would cover

grants received to date but would not cover additional grants that came in the future.

[9:16:53 AM](#)

Mr. Painter continued to discuss the amendments. He considered Item 20, which concerned Alaska Marine Highway System (AMHS) employees and the Masters, Mates, and Pilots (MMP) Union agreement. The item was submitted during the Conference Committee and had been too late to add to the budget. The amendment covered a calendar year's funding, however in the legislature's budget and enacted budget, AMHS's budget was forward funded to establish a calendar year budget in the future. There was 18 months of appropriations for AMHS in the current budget, so the other body amended the item to conform to the 18-month schedule by adding 6 months of funding (\$221,000) and moving the item to the language section.

Co-Chair Stedman recalled that the amendment had come in late in the Conference Committee cycle.

Senator Hoffman thought items 16 through 18 referenced a lump sum payment. He assumed that there was not an ongoing increase but asked if the 3 percent cost of living allowance (COLA) would be an ongoing. He asked about the annual inflation rate.

Mr. Painter relayed that the 4 percent was an ongoing rate, however the salary increase had not been paid out in 2021 because of confusion about the terms of the bargaining agreement. The contract had a 4 percent increase in FY 21 that was not paid out, and an additional 2 percent in FY 22. The 3 percent increase for MMP was also an ongoing increase. He shared that LFD was currently assuming a 2 percent inflation rate. He noted that item 16 through 18 were brought forward late in the budget process. The items essentially paid out the increase as a one-time lump sum, while the higher salary was built into the FY 22 budget.

[9:19:58 AM](#)

Senator Hoffman asked about the annual inflation rate for the previous two years.

Mr. Painter recalled that it had been in the five percent annualized rate for the past few months, before which it was under 2 percent.

Senator Olson asked if Mr. Painter was aware if the changes that came from the House were made in consultation with the administration, and if the administration had been in favor.

Mr. Painter could not speak to whether the administration was in favor of the proposed changes. He cited that many items were technical changes that LFD had consulted with OMB about.

Mr. Painter addressed Item 21, a \$1 million grant for economic development through the Department of Commerce, Community and Economic Development. The item had been submitted as a capital project, but the terms of the grant expressly prohibited the funds for being used for capital purposes. At the suggestion of LFD, the House had converted the item to a multi-year operating item, which would be more appropriate.

Senator Hoffman requested a copy of the state economic development initiatives.

Mr. Painter agreed to provide the information. He noted that at the time the amendment was submitted the department had not had an exact plan as the grant application was not due until later in the month. He agreed to follow up for more information.

Senator Hoffman relayed that he wanted to see the regional balance of how the dollars would be spent.

Mr. Painter stated that he finished reviewing the substantive changes made by the other body. There were a couple of items the Legal Services Division had felt needed to be rewritten slightly in order to clarify the purpose of the appropriation, but the items were technical in nature and not substantive.

Co-Chair Stedman asked if Mr. Painter wanted to address what had been deleted from the bill in the other body.

[9:23:39 AM](#)

Mr. Painter discussed the document titled, "2021 Legislature - Operating Budget Transaction Compare - Conf Committee Structure; Between HB 3003 GovAmd and HB 3003 - House" (copy on file). The document compared the governor's amended bill to the House version of the bill. He pointed out the first difference listed on page 1, in which the House Finance Committee added \$400,000 UGF to restore a vetoed grant to the Alaska Legal Services Corporation (ALSC).

Co-Chair Stedman asked if the item was to restore a veto.

Mr. Painter answered "yes."

Senator Wilson asked about the amount in the budget that passed the Conference Committee.

Mr. Painter stated there were two grants that went to ALSC, one for \$400,000 UGF and \$350,000 in Designated General Funds (DGF) from the Alaska Legal Services Fund. He detailed that the DGF funding was enacted but the governor had vetoed the \$400,000.

Senator Olson asked about the changes made to the bill in the other body and if the governor could veto the items again.

Mr. Painter answered in the affirmative.

Senator Olson relayed that he had grave concerns.

Mr. Painter continued to address the governor's amendments. He addressed page 5 and an addition to the bill. The House added \$114 million for the statutory deposit to the Oil and Gas Tax Credit Fund, \$60 million of which was from the CBR and the vote on accessing the CBR funds had failed. The item in the final version proposed a deposit of \$54 million in UGF. The item had been funded in Conference Committee entirely with CBR funds, and when the supermajority vote had failed there were zero dollars in the enacted budget.

Co-Chair Stedman asked for a brief rundown of how much General Fund flexibility there was, and how much flexibility there was in the CBR.

[9:26:54 AM](#)

Mr. Painter explained that the state was in an unusual situation in which there was not a backstop fund to utilize. Typically, with an enacted budget there would be the option of using the CBR for deficit-filling. In the past the state had also utilized the SBR and other funds. He continued that with the failure of the CBR access vote from the Conference Committee bill, there was no fund to utilize as a backstop if there was a deficit. The bill being considered spent a majority of the post-transfer surplus that was projected with the spring forecast, and there was about \$60 million in the CBR. He noted that in efforts to project CBR balances over the years, the projection of the deficit and the actual deficit were often significantly different due to different accounting practices. He recounted that the previous year LFD predicted a \$400 million deficit, which ended up being significantly larger after the final audit. He cautioned that having no margin of error without a backstop fund was concerning due to difficulties with precision of projections in the budgetary process.

Co-Chair Stedman asked how the lack of a backstop fund would position the state in January, when there was normally a substantial supplemental budget request.

Mr. Painter suggested that if there was a higher oil price forecast, the state could have additional room in the budget. If not, the state might have to find funds other than General Funds to pay the supplemental items.

Co-Chair Stedman wanted to put a finer point on the issue. He thought there would be funds available in the CBR, which would require a three-quarters vote and would draw the balance below the minimum floor of \$500 million (as communicated by OMB).

Mr. Painter agreed, and explained that without the reverse sweep, the balance of the CBR was significantly higher because the balance of the Higher Education Investment Fund and other funds were in the account. He thought it was hard to speculate what a three-quarter vote would look like. There were more funds in the CBR because of the failure of the reverse sweep, but the DGF funds were empty. He added that the funds available via a majority vote in January would be limited to the Power Cost Equalization Fund and the ERA. He summarized that with a three-quarter vote,

depending on whether the sweep was reversed, there was potential to access the CBR.

Co-Chair Stedman thought there would be roughly \$500 million in the CBR.

Mr. Painter agreed.

9:31:00 AM

Senator Hoffman thought the committee would consider the option of funding the \$54 million for the Oil and Gas Tax Credit Fund out of the CBR. In watching the other body, he observed the House had counted on a second chance to address the item. He thought perhaps the lower amount funded with the CBR should be considered.

Senator Wilson asked what would be paid if the state emptied the balance of the "overdraw account."

Mr. Painter replied that if an overdraw was projected ahead of time, the governor or legislature had the opportunity to submit supplemental items. If not, the governor could impound appropriations. He shared his concern that the size of the deficit was not apparent until the audits were done and the fiscal year was closed, at which point everything was paid but there would be an unfilled deficit that would need to be retroactively fixed.

Co-Chair Bishop mentioned the absence of the CBR as a backstop and the "stressed" General Fund. He referenced Mr. Painter's comment about revenue anticipation notes.

Mr. Painter explained that revenue anticipation notes could be used for cashflow within the year but had to be paid back by the end of the year. If there was an unexpected deficit the notes could be a bridge for a short time but would have to be paid back by the end of the year.

Co-Chair Bishop wanted to make note of the experience of the committee members. He thought it was interesting to recall that OMB's floor for a minimum balance in the CBR had gone from \$6 billion to \$4 billion to \$3 billion to \$2 billion and was now a half of \$1 billion. He thought the amount was a moving target.

9:34:30 AM

Mr. Painter discussed page 6 of the budget transaction comparison document, which pertained to the Permanent Fund Dividend (PFD). The governor had submitted the bill with a dividend totaling \$1.5 billion from the ERA to the General Fund, equal to the 50 percent of the percent of market value (POMV) draw. He continued that the entire POMV draw for FY 22 had already been taken and incorporated in HB 69 [the operating budget bill signed into law in August 2021], which was why there was a post-transfer surplus. Taking the additional draw would be beyond the statutory POMV. He noted that the amount in the governor's original proposal did not account for \$8.5 million that the governor did not veto from the original dividend appropriation.

Mr. Painter continued to address the item on page 6. He shared that the other body had removed the governor's appropriation and replaced it with \$730.5 million; when added to the \$8.5 million, the amount equaled the estimated \$1,100 PFD proposed by the Conference Committee. The fund source for the item was about \$400 million from the General Fund and \$330 million from the SBR. There was some dispute about whether the funds were available. If the funds were swept and not released for the purpose, the PFD was estimated to be about \$600 with just the \$400 million in general funds.

Mr. Painter highlighted page 7, which related to an additional draw of \$1.465 billion from the ERA to the CBR. With the addition of the dividend appropriation, the total added up to \$3 billion, which was the governor's proposed "bridge funds" for future deficits and to be used in future years. The item had been removed by the other body.

Senator Hoffman wondered whether the item was removed on the floor or in the House Finance Committee.

Mr. Painter replied that the item was removed at the finance table.

Senator Hoffman asked if Mr. Painter recalled the vote.

Mr. Painter replied that he did not.

Mr. Painter discussed the document titled, "2021 Legislature - Capital Budget Project Detail by Agency - Senate Structure" (copy on file). He explained he would not

go through the report because the other body had adopted what the governor requested, with the exception of moving \$1 million to the operating budget.

Co-Chair Stedman asked why the items were not included in the capital budget that had been passed a few months previously.

Mr. Painter stated that the items, such as the Alaska Energy Authority (AEA) Renewable Energy Grants had been submitted to the administration and had not made it as official amendments before the capital budget moved out of the Senate. The item essentially used DGF renewable energy funds that were already in the fund to fund another round of renewable energy grants.

[9:38:31 AM](#)

Co-Chair Stedman questioned the timeline and noted that the legislature had the bill for some time before it was executed. He thought it seemed odd that the items were not submitted early enough to be added into the normal capital budget cycle. He thought the committee should ask about the project status the following year.

Co-Chair Bishop was sure that AEA and OMB had a reminder to meet the next capital budget deadline in a timely fashion.

Co-Chair Stedman stated that amendments were due by 5pm the following day.

CSHB 3003(FIN)am(brf sup maj fld) was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[9:42:37 AM](#)

The meeting was adjourned at 9:42 a.m.